Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of Petition of WorldCom, Inc. Pursuant To Section 252 (e)(5) of the Communications Act for Expedited Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes With Verizon Virginia, Inc., and for Expedited Arbitration	)	CC Docket No. 00-218
In the Matter of Petition of Cox Virginia Telecom, Inc. Pursuant to Section 252 (e)(5) of the Communications Act for Preemption Of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia, Inc. and for Arbitration	)	CC Docket No. 00-249
In the Matter of Petition of AT&T Communications Virginia Inc., Pursuant to Section 252 (e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia Corporate Commission Regarding Interconnection Disputes with Verizon Virginia, Inc.	)	CC Docket No. 00-251

SURREBUTTAL TESTIMONY OF RICHARD B. LEE

ON BEHALF OF AT&T[1] AND WORLDCOM, INC.

September 21, 2001

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[1] The AT&T entities sponsoring this Surrebuttal Testimony are AT&T Communications of Virginia, Inc., TCG Virginia, Inc., ACC National Telecom Corp., MediaOne of Virginia and MediaOne Telecommunications of Virginia, Inc. (together, "AT&T").

Surrebuttal Testimony of Richard B. Lee

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Richard B. Lee. I am Vice President of the economic consulting firm of Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King"). My business address is 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

Q. ARE YOU THE SAME RICHARD B. LEE WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING ON JULY 31, 2001, AND REBUTTAL TESTIMONY ON AUGUST 27, 2001?

A. Yes, I am.

Q. DID YOUR DIRECT TESTIMONY CONTAIN A DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE?

A. Yes, it did.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In this surrebuttal testimony, I will respond to the rebuttal testimonies of Verizon-Virginia ("VZ-VA") witnesses Allen E. Sovereign ("Sovereign Rebuttal"), Dr. John Lacey ("Lacey Rebuttal") and Jerry A. Hausman ("Hausman Rebuttal") on the subject of the depreciation parameters appropriate for use in Total Element Long-Run Incremental Cost ("TELRIC") calculations.

Q. WHAT DO YOU CONCLUDE?

A. I conclude that the rebuttal testimonies of Mr. Sovereign and Drs. Lacey and Hausman are not persuasive. The projection lives last prescribed by the Federal Communications

Commission ("FCC") for VZ-VA should be used in developing unbundled network element ("UNE") rates.

II. IT WOULD BE UNREASONABLE TO USE THE LIVES PROPOSED BY MR. SOVEREIGN IN THIS PROCEEDING

Q. PLEASE EXPLAIN THE RELEVANCE OF THE FCC'S RECENT DEPRECIATION STATEMENTS TO THIS PROCEEDING.

A. Mr. Sovereign relied on FCC statements in its SBC 271 Order and in a recent court document for the proposition that the states need not use the FCC's prescribed lives for the pricing of UNEs.[2] In the cited statements, however, the FCC is merely acknowledging that other lives are not necessarily unreasonable. The FCC stated:

> Our rules state that the depreciation rates must be economic. While it would be reasonable for a state to follow the depreciation rates the Commission has set for regulation of SWBT's interstate services, as Kansas and other states have done, other approaches are not necessarily unreasonable.[3]

The quoted passage, and the cited statements generally, are certainly not a license to adopt depreciation rates or lives regardless of their economic reasonableness. Consistent with these directives, it would reasonable to adopt the FCC's depreciation prescription for VZ-VA. As I explained in my rebuttal testimony, however, the lives proposed by Mr. Sovereign are

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[2] Sovereign Rebuttal, at 3-4, citing Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma, CC Docket No. 00-217, Memorandum Opinion and Order FCC 01-29, released January 22, 2001 ("SBC 271 Order"), and Reply Brief for Petitioners United States and the FCC, Verizon Communications, Inc. et al. v. FCC et al. (Nos. 00-551, 00-555, 00-587, 00-590, and 00-602).

[3] SBC 271 Order, ¶ 76 (footnotes deleted).

significantly shorter than those prescribed by the FCC.[4] And as I explained there and in what follows, Mr. Sovereign's reasons for proposing these shorter lives are entirely without merit. It follows, therefore, that it would not be reasonable to adopt Mr. Sovereign's proposal in this proceeding.

III. THE LIVES PRESCRIBED BT THE FCC FOR VERIZON IN OTHER STATES ARE NOT RELEVANT

Q. ARE THE LIVES PRESCRIBED BY THE FCC FOR VERIZON IN OTHER STATES RELEVANT TO THIS PROCEEDING?

A. No. Mr. Sovereign states that the FCC "prescribed the shortest lives in the Commission's ranges for affiliates of Verizon VA in Washington, Oregon, Idaho and Hawaii" last year.[5] In fact, the FCC did not prescribe the bottom of its digital switching range for any of these states.[6]

In any case, Verizon has chosen not to file for new FCC prescriptions for Virginia.[7] The Commission should not speculate on what it might have done had VZ-VA exercised its right to seek FCC represcription. To adopt shorter lives in this proceeding would be to effectively "reward" VZ-VA for its failure to seek FCC represcription.

IV. MOST STATES HAVE ADOPTED FCC PRESCRIBED LIVES, OR SIMILAR STATE PRESCRIBED LIVES, IN UNE PROCEEDINGS

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4 Lee Rebuttal, at 1-2.

5 Sovereign Rebuttal, at 8.

6 The digital switching lives prescribed were: Washington, 13.5; Oregon 13.0; Idaho 13.5; and Hawaii 14.0.

7 The former GTE filed for Virginia represcription in 1999.

Q. HAVE MANY STATES CHOSEN TO USE LIVES SIGNIFICANTLY SHORTER THAN THOSE PRESCRIBED BY THE FCC IN UNE PRICING PROCEEDINGS?

A. No. Mr. Sovereign refers to four states as adopting lives shorter than the FCC's prescribed ranges.[8] In my Direct Testimony, I noted 20 states, in addition to Virginia, that chose FCC prescribed lives, or similar state prescribed lives.[9]

V. DR. LACEY'S RESERVE ANALYSIS IS NOT PERSUASIVE

Q. DO YOU FIND DR. LACEY'S RESERVE ANALYSIS PERSUASIVE?

A. No. In my direct testimony I explained that the FCC and I believe that the depreciation reserve is an extremely important indicator of the depreciation process.[10] I stated that the growth of depreciation reserve percents since 1980 indicates that the depreciation process is resulting in adequate depreciation accruals, and that the FCC's projection life estimates have been forward-looking and unbiased.[11] Dr. Lacey contends that the reserve is increasing simply because VZ-VA has been changing its mix of assets and the age of assets has increased (relative to their projected lives).[12]

Q. DO YOU AGREE WITH DR. LACEY'S ANALYSIS?

A. No, Dr. Lacey is confusing what the depreciation reserve should be (the "theoretical" reserve) with what the reserve actually is (the "book" reserve). His simplistic numeric examples are based upon individual asset accounting, not group accounting, and thus

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8 Sovereign Rebuttal, at 11-13.

9 Lee Direct at 9-13.

10 *Id.*, at 6-9.

11 *Id.*, at 8-9.

12 Lacey Rebuttal, at 1.

have little bearing on the issue at hand. The three "flaws" he contends "destroy" my analysis are illusory.

Q. WHAT IS DR. LACEY'S FIRST CONTENTION?

A. Dr. Lacey states:

> First, Mr. Lee ignores that as the age of the assets increases, both the amount of depreciation reserve and the percentage of depreciation reserve increases.[13]

This statement is obviously incorrect. It is true that as the age of assets increase, the amount of depreciation reserve should increase. In other words, the "theoretical" reserve increases. But whether or not the "book" reserve increases, decreases or remains the same is totally dependent upon the depreciation accruals made each year. In turn, these depreciation accruals are primarily dependent upon the projection life selected for the account in question. Forward-looking projection lives ensure that a company's book reserves will keep pace with changes in its theoretical reserve.

Q. HAS THE AVERAGE AGE OF VZ-VA'S ASSETS INCREASED RELATIVE TO THEIR EXPECTED LIFE IN RECENT YEARS?

A. Yes. According to annual filings made by VZ-VA with the FCC, its composite theoretical reserve has risen by 4.8% since 1997. More importantly, VZ-VA's actual book reserve has increased by 6.5% during the same period, as the following table shows:

DATE	THEORETICAL	BOOK
1/1/97	40.1%	44.3%
1/1/98	42.9%	46.0%
1/1/99	43.4%	47.4%
1/1/00	44.5%	49.4%
1/1/01	44.9%	50.8%

[13] *Id.*, at 3.

As shown on Attachment 1 to this surrebuttal testimony, the projection lives prescribed by the FCC for VA-VZ have resulted in a reserve surplus (i.e. – book minus theoretical) of over $400 million as of January 1, 2001.

Q. WHAT IS DR. LACEY'S SECOND CONTENTION?

A. Dr. Lacey also contends that the depreciation reserve increases as the asset mix changes.[14] Once again, he confuses the theoretical reserve with the book reserve. It is true that the composite theoretical reserve may increase as the asset mix changes (it may also stay the same or decrease). For example, assume the company has two asset accounts in Year 1 as follows:

ACCOUNT	PLANT	THEORETICAL RESERVE	PERCENT
A	1000	400	40.0%
B	1000	400	40.0%
Composite	2000	800	40.0%

Next assume that four years later the account reserves appear as follows:

ACCOUNT	PLANT	THEORETICAL RESERVE	PERCENT
A	1000	400	40.0%
B	800	400	50.0%
Composite	1800	800	44.4%

In this example, the theoretical reserve of Account A has remained stable, while the theoretical reserve of Account B has risen. In other words, the age of Account B is greater relative to its expected life. Note that, contrary to Dr. Lacey's contention, whether the expected life of Account B is greater or less that the expected life of Account

[14] *Id*, at 5-6.

A is irrelevant. What matters is the average age of the plant in each account relative to its expected life.

To some degree, the mix of plant may have contributed to the increase in theoretical reserve experienced by VZ-VA as discussed above. Once again, however, the increase in VZ-VA's book reserve is attributable to accruals booked each year pursuant to the FCC's forward-looking projection life prescriptions. The mix of accounts has not been a significant factor, since the book reserves of all the major accounts have increased as shown in Attachment 2 to this surrebuttal testimony. The book reserve increases are dramatic, especially considering the growth that each account has experienced, as shown in the following table:

		BOOK RESERVE	
ACCOUNT	GROWTH	1992	2000
Digital Switch	156%	25.1%	44.1%
Digital Circuit	117%	36.9%	58.2%
Aerial Cable	44%	40.8%	59.4%
Underground Cable	22%	27.4%	53.1%
Buried Cable	53%	38.4%	55.1%

Q. WHAT IS DR. LACEY'S THIRD CONTENTION?

A. Dr. Lacey contends that my analysis is somehow flawed because VZ-VA's book reserve has increased during a period in which the FCC did not decrease its life prescriptions for VZ-VA.[15] To the contrary, there has not been a need to reduce VZ-VA's prescribed lives because the FCC prescribed forward-looking lives in 1994. The growth in VZ-VA's book reserve from 36.5 percent in 1993 to about 50 percent today, and the reserve surplus which has accumulated, are the direct result of the FCC's life prescriptions.

[15] *Id.*, at 3-4.

Q. SINCE DR. LACEY'S ILLUSTRATIONS RELATE ONLY TO THE REASONS FOR CHANGES IN THE THEORETICAL RESERVE, CAN YOU PROVIDE AN EXPLANATION OF WHY THE BOOK RESERVES OF VZ-VA HAVE INCREASED SO DRAMATICALLY?

A. Certainly. Attachment 3 to this testimony illustrates the forces affecting the book reserves of VZ-VA and other incumbent local exchange carriers ("ILECs") in recent years. The data on Attachment 3 can be viewed as either for a specific account, or for the composite of all accounts in a company. In either case, the data assume that the economic life of the account, or of all accounts, is 10 years, given a perfect vision of the future.

The First Set of calculations illustrate a steady state situation in which additions, retirements and depreciation rates are all 10%. Under this assumption, the theoretical and book reserve remain constant at 40%.

The Second Set of calculations assumes that additions are greater than retirements and plant in service is growing over time. As I described in my direct testimony, if this is the only change to the base assumption, both the theoretical and book reserve will decrease.[16] In this case, the reserve percent decreases from 40% at the beginning of Year 1 to 32.8% at the end of year 4. This book reserve would still exactly equal the theoretical reserve, however, since accruals are still based upon the economic life of 10 years.

The Third Set of calculations assumes that prescribed lives are incorrectly estimated at 12.5 years, resulting in a depreciation rate of only 8%. The use of overly

[16] Lee Direct, at 6. The high rate of additions is causing the average age of plant to decrease.

long lives accelerates the decrease in the book reserve to a level of only 25.8% at the end of year 4. This would be lower than the theoretical reserve (as calculated in Set 2) of 32.9%. In the example, a reserve deficiency of 86 units has resulted from the prescription of lives that were too long.[17]

The Fourth Set of calculations illustrates the real increases in VZ-VA reserves. In this calculation we assume that retirements are only 5%, instead of 10% as implied by an economic life of 10 years. As a result , the reserve percent continues to increase despite the growth in plant of 46 percent. Instead of a reserve deficiency, a reserve surplus of 232 units has been created.[18]

As I noted in my direct testimony, this growing reserve and reserve surplus might be a sign that accrual rates are too high and prescribed lives are too short.[19] In this illustration, of course, there is no cause for concern since we know the accrual is based upon the true economic life of 10 years. We can expect retirements to increase in the future and the reserve surplus to decrease as they do. In the end, the use of the forward-looking life of 10 years will result in capital recovery of these investment over their average economic life.

In real life, the future is not as clear. We know that the VZ-VA book reserve has been growing despite a 60 percent growth of plant since 1992. In recommending the lives prescribed by the FCC in 1994, I am assuming that retirements will increase in the

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17 The theoretical reserve is 400 (Column h, Set 2, Year 4), while the book reserve is only 314 (Column h, Set 3, Year 4).

18 The theoretical reserve remains 400 (Column h, Set 3, Year 4), while the book reserve has grown to 632 (Column h, Set 4, Year 4).

19 Lee Direct, at 7.

future, and that the FCC's lives are not unrealistically short. Although this remains to be seen, it is obvious that the FCC's life prescriptions are not unrealistically long.

Q. PLEASE COMMENT ON DR. LACEY'S CALCULATONS SHOWING THAT VZ-VA'S RESERVE WOULD BE HIGHER IF SHORTER LIVES HAD BEEN PRESCRIBED BY THE FCC IN 1994.[20]

A. Using Dr. Lacey's percentages, the VZ-VA reserve surplus would now be $786 million had the FCC prescribed the bottom of its range and $1.6 billion had VZ-VA's GAAP life proposals been prescribed.[21] As discussed above, a relatively small surplus is not terribly significant if retirements can be expected to grow in the future. But the surpluses implied by Dr. Lacey's percentages clearly indicate that shorter lives should not have been prescribed in 1994. Indeed, the lives actually prescribed by the FCC may actually be too short. They are certainly not too long.

Q. PLEASE COMMENT ON DR. LACEY'S REFERENCE TO AT&T'S DEPRECIATION RESERVE LEVELS.[22]

A. The data referred to by Dr. Lacey relates to AT&T's long distance operations. Such data are not at all relevant to the determination of local exchange depreciation lives. As the FCC stated long ago, "the underlying considerations that go into estimating the basic factors [*i.e.*, – lives and salvage] are sufficiently different for the two groups [*i.e.*, – local and long distance] that they should be considered separately."[23]

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[20] Lacey Rebuttal, at 8.

[21] FCC Low = 56% x $7,088,747,070 - $3,183,520,774; GAAP = 67% x 7,088,747,070 – 3,183,520,774.

[22] Lacey Rebuttal, at 9.

[23] Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, Notice of Proposed Rulemaking, FCC 92-537, rel. December 29, 1992, ¶ 15.

VI. FCC PRESCRIBED LIVES RESULT IN ECONOMIC DEPRECIATION

Q. DO YOU AGREE WITH DR. HAUSMAN'S CONTENTION THAT THE AT&T/WORLDCOM MODEL TAKES ACCOUNT OF "REGULATORY DEPRECIATION," BUT NOT ECONOMIC DEPRECIATION CAUSED BY THE CHANGE IN THE PRICE OF CAPITAL GOODS USED IN TELECOMMUNICATIONS.[24]

A. No. The projection lives prescribed by the FCC and used in the AT&T/WorldCom model are "economic" lives, since they represent the most reasonable estimate of the total revenue producing life of newly placed plant.[25] As such, they take into account expected changes in the price of capital goods to the extent that these changes can be expected to affect the economic life of the assets in question. The use of FCC prescribed projection lives in the AT&T/WorldCom model thus results in economic depreciation.

VII. CONCLUSION

Q. HAVE YOU BEEN PERSUADED TO CHANGE YOUR TESTIMONY BY THE REBUTTAL TESTIMONIES OF MR. SOVEREIGN, DR. LACEY OR DR. HAUSMAN?

A. No. I continue to recommend that the lives last prescribed by the FCC for VZ-VA be used in this proceeding.

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[24] Hausman Rebuttal, at 14. Verizon witness Howard Shelanski makes essentially the same argument (Shelanski Rebuttal, at 7-9). My response in the text applies to his testimony as well.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

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[25] *See* Lee Direct, at 3-8.

I, RICHARD B. LEE hereby swear and affirm that the foregoing surrebuttal testimony was prepared by me or under my direct supervision or control and is true and accurate to the best of my knowledge and belief.

Signed:

05/31/01
10:53 AM
XREF: 05
PRES: 2000,EF,02
PROP: 2001,EF,02

COMPANY: VERIZON - VIRGINIA
STATE: VIRGINIA EAST
ACCOUNT: STATEMENT C - RESERVES

ANNUAL FILING ONLY
CALCULATION OF RESERVES 1-1-2001

ACCOUNT	CATEGORY	1-1-2001 INVESTMENT	BOOK RESERVE		ADJUSTED BOOK RESERVE WITH AMORTIZATION		UNAMORTIZED BALANCE	THEORETICAL RESERVE	
			AMOUNT	PERCENT	AMOUNT	PERCENT		AMOUNT	PERCENT
		A$	B$	C=B/A	D$	E=D/A	F$=D-B	G$	H=G/A
2112	MOTOR VEHICLES	79,172,091	54,191,280	68.4	54,191,280	68.4	0	40,615,283	51.3
2114	TOOLS AND OTHER WORK	56,789,926	29,410,796	51.8	29,410,796	51.8	0	24,873,988	43.8
2121	BUILDINGS	436,929,350	91,306,644	20.9	91,306,644	20.9	0	80,395,000	18.4
2122	FURNITURE	286,025	-163,714	-57.2	-163,714	-57.2	0	102,111	35.7
2123	OFFICE EQUIPMENT								
	OFFICE SUPPORT EQPT	4,324,051	1,671,422	38.7	1,671,422	38.7	0	1,902,582	44.0
	COMPANY COMM EQPT	2,293,203	-2,710,655	-118.2	-2,710,655	-118.2	0	-61,916	-2.7
2124	COMPUTERS	171,830,729	98,466,399	57.3	98,466,399	57.3	0	99,146,331	57.7
2211	ANALOG SWITCHING	37,928,070	37,535,105	99.0	37,535,105	99.0	0	33,642,198	88.7
2212	DIGITAL SWITCHING	1,374,469,170	598,301,473	43.5	598,301,473	43.5	0	518,174,877	37.7
2220	OPERATOR SYSTEMS	16,917,353	6,059,522	35.8	6,059,522	35.8	0	6,022,578	35.6
2231	RADIO SYSTEMS	3,576,331	1,798,328	50.3	1,798,328	50.3	0	2,800,267	78.3
2232	CIRCUIT EQUIPMENT								
	DIGITAL CIRCUIT	1,969,832,646	1,117,718,857	56.7	1,117,718,857	56.7	0	915,972,180	46.5
	ANALOG CIRCUIT	63,864,184	66,503,250	104.1	66,503,250	104.1	0	56,519,803	88.5
2362	OTHER TERMINAL EQPT	111,923,174	30,214,910	27.0	30,214,910	27.0	0	25,630,407	22.9
2411	POLES	85,048,031	57,411,325	67.5	57,411,325	67.5	0	58,342,949	68.6
2421	AERIAL CABLE								
	AERIAL CABLE - MET	445,004,617	280,951,564	63.1	280,951,564	63.1	0	259,882,696	58.4
	AERIAL CABLE-NON MET	85,968,672	34,662,212	40.3	34,662,212	40.3	0	31,894,377	37.1
2422	UNDERGROUND CABLE								
	U.G. CA - MET	275,163,582	160,077,338	58.2	160,077,338	58.2	0	135,930,810	49.4
	U.G. CA - NON MET	164,354,095	73,272,350	44.6	73,272,350	44.6	0	69,193,074	42.1
2423	BURIED CABLE								
	BURIED CABLE-MET	1,224,410,096	693,745,379	56.7	693,745,379	56.7	0	648,937,351	53.0
	BURIED CABLE-NON MET	84,037,757	26,759,000	31.8	26,759,000	31.8	0	25,211,327	30.0
2424	SUBMARINE CABLE	696,316	260,435	37.4	260,435	37.4	0	214,465	30.8
2426	INTRABLDG CABLE								
	INTRABLDG - MET	23,527,377	23,520,797	100.0	23,520,797	100.0	0	15,386,905	65.4
	INTRABLDG - NON MET	4,459,275	1,155,608	25.9	1,155,608	25.9	0	1,052,389	23.6
2441	CONDUIT SYSTEMS	365,940,949	118,800,699	32.5	118,800,699	32.5	0	131,738,742	36.0
	TOTALS	7,088,747,070	3,600,920,324	50.8	3,600,920,324	50.8	0	3,183,520,774	44.9
2321	CUST PREM WIRE	0	0	0.0	0	0.0	0	0	0.0
	GRAND TOTALS	7,088,747,070	3,600,920,324	50.8	3,600,920,324	50.8	0	3,183,520,774	44.9

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XREF: 05
PRES: 2000,EF,02
PROP: 2001,EF,02

COMPANY: VERIZON - VIRGINIA
STATE: VIRGINIA EAST
ACCOUNT: STATEMENT C - RESERVES

ANNUAL FILING ONLY
CALCULATION OF RESERVES 1-1-2001

ACCOUNT	CATEGORY	1-1-2001 INVESTMENT	BOOK RESERVE AMOUNT	BOOK RESERVE PERCENT	ADJUSTED BOOK RESERVE WITH AMORTIZATION AMOUNT	ADJUSTED BOOK RESERVE WITH AMORTIZATION PERCENT	UNAMORTIZED BALANCE	THEORETICAL RESERVE AMOUNT	THEORETICAL RESERVE PERCENT
		AS	BS	C=B/A	DS	E=D/A	FS=D-B	GS	H=G/A
2112	MOTOR VEHICLES	79,172,091	54,191,280	68.4	54,191,280	68.4	0	40,615,283	51.3
2114	TOOLS AND OTHER WORK	56,789,926	29,410,796	51.8	29,410,796	51.8	0	24,873,988	43.8
2121	BUILDINGS	436,929,350	91,306,644	20.9	91,306,644	20.9	0	80,395,000	18.4
2122	FURNITURE	286,025	-163,714	-57.2	-163,714	-57.2	0	102,111	35.7
2123	OFFICE EQUIPMENT								
	OFFICE SUPPORT EQPT	4,324,051	1,671,422	38.7	1,671,422	38.7	0	1,902,582	44.0
	COMPANY COMM EQPT	2,293,203	-2,710,655	-118.2	-2,710,655	-118.2	0	-61,916	-2.7
2124	COMPUTERS	171,830,729	98,466,399	57.3	98,466,399	57.3	0	99,146,331	57.7
2211	ANALOG SWITCHING	37,928,070	37,535,105	99.0	37,535,105	99.0	0	33,642,198	88.7
2212	DIGITAL SWITCHING	1,374,469,170	598,301,473	43.5	598,301,473	43.5	0	518,174,877	37.7
2220	OPERATOR SYSTEMS	16,917,353	6,059,522	35.8	6,059,522	35.8	0	6,022,578	35.6
2231	RADIO SYSTEMS	3,576,331	1,798,328	50.3	1,798,328	50.3	0	2,800,267	78.3
2232	CIRCUIT EQUIPMENT								
	DIGITAL CIRCUIT	1,969,832,646	1,117,718,857	56.7	1,117,718,857	56.7	0	915,972,180	46.5
	ANALOG CIRCUIT	63,864,184	66,503,250	104.1	66,503,250	104.1	0	56,519,803	88.5
2362	OTHER TERMINAL EQPT	111,923,174	30,214,910	27.0	30,214,910	27.0	0	25,630,407	22.9
2411	POLES	85,048,031	57,411,325	67.5	57,411,325	67.5	0	58,342,949	68.6
2421	AERIAL CABLE								
	AERIAL CABLE - MET	445,004,617	280,951,564	63.1	280,951,564	63.1	0	259,882,696	58.4
	AERIAL CABLE-NON MET	85,968,672	34,662,212	40.3	34,662,212	40.3	0	31,894,377	37.1
2422	UNDERGROUND CABLE								
	U.G. CA - MET	275,163,382	160,077,338	58.2	160,077,338	58.2	0	135,930,810	49.4
	U.G. CA - NON MET	164,354,095	73,272,350	44.6	73,272,350	44.6	0	69,193,074	42.1
2423	BURIED CABLE								
	BURIED CABLE-MET	1,224,410,096	693,745,379	56.7	693,745,379	56.7	0	648,937,351	53.0
	BURIED CABLE-NON MET	84,037,757	26,759,000	31.8	26,759,000	31.8	0	25,211,327	30.0
2424	SUBMARINE CABLE	696,316	260,435	37.4	260,435	37.4	0	214,465	30.8
2426	INTRABLDG CABLE								
	INTRABLDG - MET	23,527,377	23,520,797	100.0	23,520,797	100.0	0	15,386,905	65.4
	INTRABLDG - NON MET	4,459,275	1,155,608	25.9	1,155,608	25.9	0	1,052,389	23.6
2441	CONDUIT SYSTEMS	365,940,949	118,800,699	32.5	118,800,699	32.5	0	131,738,742	36.0
	TOTALS	7,088,747,070	3,600,920,324	50.8	3,600,920,324	50.8	0	3,183,520,774	44.9
2321	CUST PREM WIRE	0	0	0.0	0	0.0	0	0	0.0
	GRAND TOTALS	7,088,747,070	3,600,920,324	50.8	3,600,920,324	50.8	0	3,183,520,774	44.9

Verizon - Virginia Digital Switch Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1992	557	643	600	87	87	8	40	161	143	15.7	1.5	6.7	25.1
1993	643	711	677	68	75	15	50	200	181	11.6	2.4	7.4	28.2
1994	711	778	744	67	72	7	54	249	224	10.2	1.0	7.2	32.0
1995	778	840	809	63	66	9	59	302	275	8.5	1.2	7.3	36.0
1996	840	944	892	104	117	14	64	354	328	13.9	1.7	7.2	37.4
1997	944	1,070	1,007	125	136	12	71	413	383	14.4	1.2	7.0	38.6
1998	1,070	1,253	1,161	183	196	11	81	484	448	18.3	1.0	7.0	38.6
1999	1,253	1,340	1,296	87	112	20	92	576	530	8.9	1.6	7.1	43.0
2000	1,340	1,425	1,383	86	143	57	96	628	602	10.7	4.3	6.9	44.1
Avg.										12.5	1.8	7.1	

Source: ARMIS 43-02 Reports, Table B-1 and B-5 1992-2000

Verizon - Virginia Digital Circuit Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG. Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1992	936	998	967	61	123	60	108	368	344	13.2	6.4	11.1	36.9
1993	998	1,065	1,031	67	134	66	109	410	389	13.5	6.6	10.6	38.5
1994	1,065	1,127	1,096	62	136	67	121	465	438	12.8	6.3	11.0	41.2
1995	1,127	1,223	1,175	96	137	45	129	551	508	12.1	4.0	11.0	45.1
1996	1,223	1,319	1,271	96	165	82	136	617	584	13.5	6.7	10.7	46.8
1997	1,319	1,446	1,383	127	153	44	147	740	678	11.6	3.4	10.6	51.2
1998	1,446	1,598	1,522	152	183	49	161	871	805	12.6	3.4	10.6	54.5
1999	1,598	1,780	1,689	182	209	38	174	1,020	945	13.1	2.4	10.3	57.3
2000	1,780	2,034	1,907	254	309	68	194	1,184	1,102	17.4	3.8	10.2	58.2
Avg.										13.3	4.8	10.7	

Source: ARMIS 43-02 Reports, Table B-1 and B-5 1992-2000

Verizon - Virginia Aerial Cable Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG. Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1992	368	387	377	18	28	10	22	158	152	7.6	2.7	5.8	40.8
1993	387	401	394	15	21	4	23	178	168	5.5	1.0	5.8	44.2
1994	401	423	412	22	24	6	24	195	186	6.0	1.5	5.8	46.1
1995	423	438	431	14	21	5	25	214	205	4.9	1.2	5.8	49.0
1996	438	454	446	16	23	7	26	233	224	5.2	1.5	5.8	51.3
1997	454	475	465	21	28	6	27	252	242	6.1	1.4	5.8	53.0
1998	475	499	487	24	30	8	28	271	262	6.3	1.6	5.8	54.4
1999	499	515	507	16	23	6	29	293	282	4.7	1.2	5.8	56.9
2000	515	531	523	16	24	6	30	316	304	4.6	1.3	5.8	59.4
Avg.										5.7	1.5	5.8	

Source: ARMIS 43-02 Reports, Table B-1 and B-5 1992-2000

Verizon - Virginia Underground Cable Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1992	361	333	347	(28)	25	53	14	91	109	6.9	14.6	4.0	27.4
1993	333	343	338	9	18	(24)	15	121	106	5.3	-7.3	4.4	35.4
1994	343	371	357	29	23	6	17	136	129	6.8	1.6	4.9	36.7
1995	371	382	377	11	15	4	19	152	144	4.0	1.1	4.9	39.7
1996	382	395	389	13	16	4	19	167	159	4.3	0.9	4.9	42.4
1997	395	407	401	12	15	3	20	183	175	3.9	0.8	4.9	45.1
1998	407	418	412	11	15	4	20	199	191	3.6	0.9	5.0	47.7
1999	418	428	423	10	15	4	21	215	207	3.5	1.1	5.0	50.3
2000	428	440	434	12	16	3	22	233	224	3.6	0.7	5.0	53.1
Avg.										4.7	1.6	4.8	

Source: ARMIS 43-02 Reports, Table B-1 and B-5 1992-2000

Verizon - Virginia Buried Cable Rates

(Dollars in Millions)

	Telecommunications Plant in Service												
	BOY (a)	EOY (b)	Average (c)=(a+b)/2	Increase (d) = b-a	Add (e)	Ret (f)	Deprec (g)	EOY Reserve (h)	AVG. Reserve (i)	Add Rate (j) = e/a	Retire Rate (k) = f/a	Deprec Rate (l) = g/c	Reserve Percent (m) = h/b
1992	855	880	867	25	44	19	47	337	323	5.1	2.2	5.4	38.4
1993	880	912	896	32	44	5	48	379	358	5.0	0.6	5.4	41.6
1994	912	957	935	45	46	9	50	423	401	5.0	1.0	5.4	44.2
1995	957	997	977	40	47	7	53	469	446	4.9	0.7	5.4	47.0
1996	997	1,046	1,021	49	57	8	55	515	492	5.7	0.8	5.4	49.3
1997	1,046	1,102	1,074	56	66	9	58	563	539	6.3	0.9	5.4	51.1
1998	1,102	1,177	1,140	75	86	12	61	612	588	7.8	1.1	5.4	52.0
1999	1,177	1,241	1,209	64	78	13	65	663	638	6.6	1.1	5.4	53.4
2000	1,241	1,308	1,275	67	80	10	69	721	692	6.4	0.8	5.4	55.1
Avg.										5.9	1.0	5.4	

Source: ARMIS 43-02 Reports, Table B-1 and B-5 1992-2000

Life Prescription Illustration

	Assumption	Year	Plant In Service BOY a	ADD b	RET c	EOY d=a+b-c	Plant In Service BOY e	ACC f	RET g	EOY h=e+f-g	EOY Reserve % i=h/d
1.	Prescribed life correct	1	1,000	100	100	1,000	400	100	100	400	40.0%
	No Growth	2	1,000	100	100	1,000	400	100	100	400	40.0%
	Add 10%	3	1,000	100	100	1,000	400	100	100	400	40.0%
	Retire 10%	4	1,000	100	100	1,000	400	100	100	400	40.0%
	Rate 10%										
2.	Prescribed life correct	1	1,000	150	100	1,050	400	100	100	400	38.1%
	With Growth	2	1,050	158	105	1,103	400	105	105	400	36.3%
	Add 15%	3	1,103	165	110	1,158	400	110	110	400	34.6%
	Retire 10%	4	1,158	174	116	1,216	400	116	116	400	32.9%
	Rate 10%										
3.	Prescribed life too long	1	1,000	150	100	1,050	400	80	100	380	36.2%
	With Growth	2	1,050	158	105	1,103	380	84	105	359	32.6%
	Add 15%	3	1,103	165	110	1,158	359	88	110	337	29.1%
	Retire 10%	4	1,158	174	116	1,216	337	93	116	314	25.8%
	Rate 8%										
4.	Prescribed life correct	1	1,000	150	50	1,100	400	100	50	450	40.9%
	With Growth and	2	1,100	165	55	1,210	450	110	55	505	41.7%
	"Delayed" Retirements	3	1,210	182	61	1,331	505	121	61	566	42.5%
	Add 15%	4	1,331	200	67	1,464	566	133	67	632	43.2%
	Retire 5%										
	Rate 10%										

Attachment 3